

HOUSE FINANCE COMMITTEE
January 22, 2013
1:32 p.m.

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CALL TO ORDER

Co-Chair Austerman called the House Finance Committee meeting to order at 1:32 p.m.

MEMBERS PRESENT

Representative Alan Austerman, Co-Chair
Representative Bill Stoltze, Co-Chair
Representative Mark Neuman, Vice-Chair
Representative Mia Costello
Representative Bryce Edgmon
Representative Les Gara
Representative Lindsey Holmes
Representative Cathy Munoz
Representative Steve Thompson
Representative Tammie Wilson
Representative David Guttenberg

ALSO PRESENT

Patrick Gamble, President, University of Alaska; Trinity Tomsic, Deputy Executive Director, Federal Funds Information for States (FFIS).

SUMMARY

GOVERNOR'S FY 14 BUDGET OVERVIEW:

University of Alaska

OVERVIEW OF FEDERAL FUNDS AND GRANTS IN ALASKA, THE FISCAL CLIFF: TRINITY TOMSIC, DEPUTY EXECUTIVE DIRECTOR, FFIS.

HB 65 APPROP: OPERATING BUDGET/LOANS/FUNDS

HB 65 was HEARD and HELD in committee for further consideration.

HB 66 APPROP: MENTAL HEALTH BUDGET

HB 66 was HEARD and HELD in committee for further consideration.

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HOUSE BILL NO. 65

"An Act making appropriations for the operating and loan program expenses of state government and for certain programs, capitalizing funds, amending appropriations, and making reappropriations; and providing for an effective date."

HOUSE BILL NO. 66

"An Act making appropriations for the operating and capital expenses of the state's integrated comprehensive mental health program; and providing for an effective date."

^FY 14 GOVERNOR'S BUDGET OVERVIEW: UNIVERSITY OF ALASKA

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PATRICK GAMBLE, PRESIDENT, UNIVERSITY OF ALASKA, introduced himself and Michelle Rizk, who was the budget officer and the acting director of the university's human resources department. He provided a budget overview and noted that the subcommittee process had not yet begun. He explained that he would refer to charts prepared by the Legislative Finance Division (LFD).

Mr. Gamble presented the "FY14 Budget Overview" (copy on file).

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Mr. Gamble began with slide 2: "Many Traditions, One Alaska." He noted that the University of Alaska had various campuses located around the state. He stated that the organization was regrouping after a significant growth period. He added that the reassessment of processes was the focus in 2013.

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Mr. Gamble discussed slide 3: "UA's Mission."

The University of Alaska inspires learning and advances and disseminates knowledge through teaching, research, and public service, emphasizing the North and its diverse peoples."

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Mr. Gamble discussed slide 4: "Who Are We?"

- 34,000 students; 15 nationalities
- 3 urban campuses; thirteen community campuses; numerous outreach centers
- More than 500 degrees
- 4,174 graduates (FY 12)

Mr. Gamble discussed slide 5: "Core Competencies."

- Higher Education
 - PhD
 - MA/MS
 - BA/BS
 - AA
- Workforce Development
 - Licenses
 - Certificates
 - Skilled Labor Training
 - Industry Partnerships
- Research and Development(R&D)
 - State needs
 - Federal needs
 - International needs
 - Economic needs
- Cultural Priority and Integration
- Community Partners

Mr. Gamble voiced that college graduates were in high demand. He mentioned conversations with Exxon and Alyeska who expressed interest in university graduates. The university provided industry with the highest single source of engineers. He mentioned projections of growth in the health care industry over the next three to four years. He added that new mining opportunities provided significant employment.

Mr. Gamble pointed out industry partnerships and the need to share the burden of training workers that add to the industry's benefit.

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Vice-Chair Neuman asked about duplicate programs throughout the state. He wondered about the university's role regarding efficiencies in education programs. He recalled a controversial nursing program at the Alaska Vocational Technical Center (AVTEC). He expressed interest in streamlining and providing efficiencies. He asked if the duplication of effort was inefficient.

Mr. Gamble agreed that the state and university duplicated workforce training. The duplication was a problem that could be avoided. He clarified that the university's core competency graduated four-year nurses and most hospitals would hire nurses with a four-year degree only. He advocated for a division of courses between the state and the university.

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Mr. Gamble discussed sequestering and the fact that fewer universities would receive federal dollars. He stated that the arctic and circumpolar north were important areas where the university was primed for success. He added that the cultural priority and integration of native learning methods was important. The university worked to provide relevant information to all cultures. He mentioned the outreach in the forms of agricultural extension, which was a large statewide focus.

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Representative Costello asked about the Fisher report.

Mr. Gamble responded that the Fisher report was addressed in the Strategic Directive Initiative (SDI). The Fisher report contained approximately 80 write-ups, which were considered in SDI. He offered to address the recommendations during the subcommittee process. He noted that the Fisher report preceded the recognition of the need for SDI.

Mr. Gamble addressed slide 6: "FY 12 Report Card Performance Review" and the flat performance review exhibited. The diversity was present for numbers and types of degrees. He added that the chart indicated that the growth years were over. The demands of job growth must be met, hence growth at the university must continue.

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Mr. Gamble mentioned the revolution occurring in higher education. The recognition of the poor returns on investment, skyrocketing tuition, high fixed costs and low student performance and graduation existed on a national level. He appreciated the support of the legislature, since other states were forced to operate without such support. He stated that the university was working hard to solve their problems.

Representative Gara asked about live courses versus online classes.

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Mr. Gamble explained that the classroom described by Representative Gara was known as a "mixed class." The university offered mixed classes, utilizing multiple screens with presenters from various areas. The goal was to equip more classrooms with the necessary equipment. He lamented that the track record was poor because the equipment required modernization and the funding for that was not approved. He stated the goal of expanding e-learning. He noted that the bandwidth limitation presented challenges, especially in rural areas.

Representative Gara pointed out that engineering, math and science required higher education, but liberal arts classes also proved important in teaching problem solving skills. He wondered about the importance placed on liberal arts at the university.

Mr. Gamble replied that critical thinking was the most important product provided to a university student. He added that a broad liberal arts demand existed across the country.

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Representative Costello asked about the percentage of incoming students who were obligated to take remedial courses. She asked if the percentage had changed since last session.

Mr. Gamble replied 57 to 60 percent of incoming students took remedial courses. He stated that the number had increased slightly, but was leveling as demographics in the state were leveling. He explained that one goal of SDI was to remedy the issue. The university wished to obviate the need for remediation.

Representative Costello asked if the university should direct attention to primary education and its deficiencies. She opined that the need for remediation was an issue that began earlier than high school. She mentioned that children were most successful when they had learned to read before entering the third grade.

Mr. Gamble responded that reading and especially critical thinking was important. Critical thinking required the basics of reading.

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Mr. Gamble addressed slide 7: "Challenges."

- State Funding support - trending down
- Restrictions on internal budget reallocations
- Huge and aging facility complex
- Enrollment - leveling out
- Matching degrees and training to workforce needs
- Health care costs - unsustainable
- Bandwidth limitations - rural student impact

Mr. Gamble discussed slide 8: "Meeting UA's Challenges Strategic Direction Initiative (SDI)."

- Focus on Student Achievement
- Asking "Why...?"
 - Credit transfer - common complaint
 - Students service - "hassle factor" too high
 - Limits to e-Learning - rural impact growing
 - Tuition can't keep up with cost of doing business
- Placing Emphasis Across UA System
 - Value

- o Quality
- o Throughput
- o Excellence
- o Attainment
- o 3 critical years
- Incorporate lessons learned - studies, reports

Mr. Gamble elaborated that the university was a bureaucracy. The goal of SDI was to create a service organization. He stated "we are all in the university business, but the business of the university was to graduate students, maintain high standards and pay the bills." The burden of the business should not fall on the students. Service was deemed important and bureaucracies were not known for service. He added that the cost of books was considerable.

Mr. Gamble noted that many of the concerns were expressed via student surveys and the question of why things do not change was valid. He explained that the purpose of SDI was to evaluate the reasons for the various university practices. He believed that change required the courage to act on the suggestions provided. The emphasis across the system was for a value-added organization. He spoke to the transition period between high school and college where students required the most help. The university had master plans included in the accreditation process.

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Mr. Gamble discussed slide 9: "Major SDI Initiatives Underway Since Last Year."

- Improved Student Services
 - o MAP - Works
 - o UAS Honors Program
 - o UAA VetSuccess
 - o Stay on TRACK
 - o Educational opportunities in rural Alaska
- Partnerships K-12
 - o School Board dialogues with DEED
 - o Alaska Middle College
 - o Cordova Campus relocated to Cordova High School

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Mr. Gamble discussed slide 10: "Major SDI Initiatives Underway Since Last Year."

- Public Private Partnerships
 - UAS Center for Mine Training (CMT) has been established
 - UAF Sustainable Village
 - Dillingham nursing students trained and hired locally
 - FSMI - Fisheries, Seafood, Maritime Initiative
 - P3 Dining Facility
- Increased Alaska-Related Grant Funded Research
 - Alaska adapting to changing environments
 - Alaska Native health research
- Program Review
 - Common Courses
 - Common Cut Scores

Mr. Gamble continued with slide 11: "FY 14 Budget Request."

- Supporting SDI Themes
 - Student Achievement and Attainment
 - Productive Partnerships with Alaska's Schools
 - Productive Partnerships with Alaska's Public Entities and Private Industries
 - R&D to Sustain Alaska's Communities and Economic Growth
 - Accountability to the People of Alaska

Mr. Gamble spoke about program review. He planned to have an in-depth discussion during the subcommittee process. He stated that many of the classes were reviewed. He mentioned that the themes listed above were integrated into the budget work.

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Mr. Gamble discussed slide 12: "Governor's Proposed FY 14 Operating Budget." He pointed out the state appropriations at 2.9 percent. Compensation increase listed as \$7.6 million, were essentially 2.9 percent. The new facility/additions estimated operating costs was for GO bond and legislative funded new initiatives.

Mr. Gamble discussed slide 13: "Deferred Maintenance."

- Bottom Line

- o UA seriously needs a programmatic solution to acquiring annual funds for real property maintenance, R&R and DM reduction. Going back to the well each year is clearly not working in the state's best financial interest.

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Mr. Gamble continued with slide 14 and the "Governor's Proposed FY 14 Capital Budget." The governor's proposed budget consisted of \$37.5 million, which was appropriated for the fourth year with the purpose of buying down the cost of deferred maintenance. The receipt authority was for the "Sustainable Village Phase 2-4."

Mr. Gamble skipped to slide 18: "Sustainment Funding Model for UA Facilities." He noted that the university was the largest real property owner in the state. He described the chart, the red line indicating the deferred maintenance backlog with no additional funding beyond the governor's five year plan. He mentioned the deferred maintenance reductions displayed by the green lines. He explained that the curve increased, which indicated that (red line) would occur without additional funding from the governor. He noted that FY 14 and FY 15 illustrated the descent of the third green line. He described the relationship between the various needs of the university.

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Mr. Gamble discussed slide 13: "Deferred Maintenance, Bottom Line."

UA seriously needs a programmatic solution to acquiring annual funds for real property maintenance, R&R and DM education. Going back to the well each year is clearly not working in the state's best financial interest.

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Mr. Gamble discussed slice 16: "Federal Agencies Seek Out UA Research."

- \$133 million external research funding

- Growing recognition that Alaska should have more involvement in circumpolar research questions and answers
- To be competitive complimentary Alaska funding for research is needed

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Mr. Gamble discussed slide 19 "University of Alaska's Share of Total Agency Operations," prepared by LFD. He noted that the graphs were valuable for illustrating trends that lead to various issues. These graphs provided general trends and the general trend lines were in the positive direction. The growth rate was approximately 4.8 percent. He added that the percentage would change if the state contribution changed, which would be out of the university's control. He pointed out that slide 20 was simply another way of viewing slide 19.

Mr. Gamble discussed slide 21: University of Alaska Unrestricted General Fund (UGF) Increases Compared to Designated General Fund (DGF) Increases (\$ Thousands). The House Finance Committee (HFC) proposed a goal of reaching a ratio of \$1.25 university to \$1 state match in revenue. In the process of reaching the ratio, the HFC recommended the goal of a 1 to 1 ratio. Slide 21 addressed the request/goal over the last several years. He noted the volatility of the chart, but highlighted that the trend was good and last year the university exceeded the 1 to 1 ratio. He noted that if the university charged the same tuition as they had last year, \$6 million dollars could be added to the FY DGF of \$8,081,000. The university made the decision to hold tuition to 2 percent.

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Mr. Gamble continued to discuss slide 21. The chancellors made a decision that the university would remain at 2 percent through efficiencies. He had issued a 4.8 percent cut across his staff, which amounted to \$2 million. He stressed that the university was working hard no matter what the formula was and the results were good.

Mr. Gamble moved to slide 22, which illustrated a lookback for the past 10 years. It was not possible to sustain 4.8 percent annual growth that far into the future without initiatives. He pointed out the break in the graph's curve

between FY 13 and FY 14 where the flattening process was visible. He furthered that the budget was largely paying benefits. He worried about national health care costs, as they might present difficulty. He briefly pointed to slide 23, which provided another version of the theme.

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Representative Wilson asked about the K-12 tracking system. She wondered whether the university was able to determine and track deficiencies.

Mr. Gamble replied that the university received a federal grant and was working with Department of Education and Early Development on a project known as "P/20W" or "SLEDS." The grant provided the opportunity to gather the requested data on high school deficiencies. The "data pipeline" extended from a data source prior to college to allow for the tracking of student records. It was possible to populate the database with many different options. Students were then offered remediation or scholarships. He stated that the full populated and federally approved data set would be provided as a result of the grant funding. The state had requirements that would allow for the improvement.

Representative Wilson requested a time frame.

Mr. Gamble replied that the data was prepared for loading. He stated that the data would be available for assumptions if the stipulations of the federal grant were met.

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Representative Thompson asked about the out migration of jobs, from Fairbanks to Anchorage. The migration left vacant space in the Butrovich building. He requested an update.

Mr. Gamble replied that Fairbanks was a difficult place to live. He stated that a premium must be paid to get people to live in Fairbanks. He pointed out that the staff count remained level in all categories. He added that he had great staff in Anchorage, who preferred not to live in Fairbanks. He agreed that it would be more efficient to have the entire staff in Fairbanks. He stated that the video teleconferencing capabilities had provided some

relief, but travel from Anchorage to Fairbanks was less than efficient.

Representative Guttenberg commented that each community provides unique benefits.

Mr. Gamble responded that his key staff was living in Fairbanks and they loved it.

Representative Munoz announced the university subcommittee schedule.

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^OVERVIEW OF FEDERAL FUNDS AND GRANTS IN ALASKA, THE FISCAL CLIFF, POSSIBLE IMPACTS OF THE BUDGET CONTROL ACT (SEQUESTRATION), AND FUTURE OUTLOOK OF FEDERAL/STATE RELATIONS BY TRINITY TOMSIC, EXECUTIVE DIRECTOR, FFIS.

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TRINITY TOMSIC, DEPUTY EXECUTIVE DIRECTOR, FEDERAL FUNDS INFORMATION FOR STATES (FFIS), presented "The Federal Budget and Alaska" (copy on file). She explained that FFIS was a small organization with five members that worked with all states' executive and legislative branches. The organization provided federal level fiscal information and predicted the potential fiscal impact.

Ms. Tomsic discussed slide 2: "Where the money goes: Pieces of the federal budget pie." She described the chart, which showed that the federal government spent \$3.6 trillion in FY 11 in total. More than half of the spending was considered "mandatory." Mandatory spending included Social Security, Medicare, Medicaid and other programs such as nutrition and farm programs and retirement benefits. The mandatory expenses were outside of the regular budget discussions or appropriation process. The appropriation process covered the discretionary aspect of the budget, which included domestic discretionary and defense, which amounted to less than half of the budget. She pointed out that FY 11 saw a federal budget deficit of 1.5 trillion. The deficit would exist with the exclusion of defense and domestic discretionary spending.

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Ms. Tomsic continued with slide 3: "Payments to individuals have come to dominate federal grants." The chart illustrated federal outlays for state and local grants as a share of total federal outlays.

Co-Chair Stoltze asked about debt service and the pie-chart on slide 2.

Ms. Tomsic responded that the debt service was illustrated in the "net interest" slice of the pie.

Ms. Tomsic continued with slide 4: "What program's areas are supported by state/local grants?" Of the \$3.6 trillion, approximately \$600 billion was allocated to state and local governments in the form of grants. States also received benefits from Social Security payments, Medicare, and defense. Slide 4 detailed only the grants for state and local government. Grants represented 18 percent of the federal budget. The chart divided the types of grants going to state and local governments. Medicaid increased, while the other categories decreased. Capital or transportation was declining.

Ms. Tomsic continued with slide 5: "Federal grants going to Alaska: share of funding by function." She explained that the chart was broken down by budget function. The chart compared Alaska to the national average. She noted that state transportation, mineral leasing and national forests incurred greater grant funding than the national average. Fish and wildlife federal programs were also higher than the national average. Health and income security were charted below the national average.

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Ms. Tomsic referred to slide 6: "Federal grants going to Alaska: per capita, 2011." She explained that Alaska ranked 10 with \$1041 per person in Medicaid funds. Discretionary was ranked number 1 with \$1812 per person. The total rank was approximately twice the national average.

Ms. Tomsic discussed slide 7: "What influences grant allocations?"

- Medicaid redistributes income from:
 - o richer to poorer states
 - o smaller to larger programs

- o cheaper to more expensive programs
- o Alaska receives \$1041 per capita in federal Medicaid funding and ranks number 10; FMAP = 50.00 percent
- Many programs allocate funds based on need
 - o Alaska is a relatively wealthy state (high per capita income and low poverty rate)
 - o Alaska benefits from grant programs with small-state minimums

Representative Edgmon noted that 23 percent of fund sources were from the overall budget and Alaska was "federal government driven." He believed that much of the federal funding did not go through the state budget process.

Ms. Tomsic responded that the grants were the focus of the previous slide. She agreed that the defense budget was greater and added to the money flowing through the state.

Representative Edgmon understood the trend in Alaska for federal funding to remain static.

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Ms. Tomsic stated that the discretionary grants showed a slight decline over time, but mandatory spending was driven by caseloads. As caseloads increased, an increase in funding in food stamps and Medicaid occurred.

Representative Guttenberg asked for a breakdown of cost for service. He wondered if the cost of delivering service was different.

Ms. Tomsic did not have a cost-of-service breakdown. She provided data related to the Medicaid dollars flowing to Alaska on a per capita basis.

Ms. Tomsic responded that the intention of the presentation was to provide a quick overview. She noted that the matching rate for Medicaid was 50 percent.

Ms. Tomsic referred to slide 8: "What influences grant allocations?"

- Demographics

- o 26 percent of Alaska's population is under 18 (above average) and 8 percent is 65 or older (below average)
 - o Alaska has experienced a slight increase in its share of total population since 2000
- Federal facilities/land
 - o Large federal presence in Alaska
 - o Alaska benefits from programs with formulas based on receipts from federal land
 - BLM's Payments in Lieu of Taxes, Mineral Leasing Payments, Impact Aid

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Ms. Tomsic discussed slide 9: "What's the outlook in FY 1 and beyond?"

- Budget Control Act (BCA) sequester
- FY 2013 appropriations
 - o Continuing Resolution (CR) expires 3/27/13
 - o State/local programs disproportionately targeted for spending cuts since 2010
- Comprehensive deficit reduction
 - o Medicaid reform; cost-shift to states?
 - o Further cuts in discretionary spending
 - o Trade-off: more certainty, less funding

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Ms. Tomsic referred to slide 10: "Discretionary spending has been on the decline:" The chart detailed discretionary spending as red bars, which decreased over time. The mandatory spending saw a slight increase.

Ms. Tomsic discussed slide 11: "The BCA and Looming Sequester."

- Sequester scheduled to occur on March 1, 2013
- \$984 billion in cuts required over FYs 2013-2021 (roughly \$109 billion per year, half from defense and half from nondefense)
 - o "Fix" reduced FY 2013 cuts from \$109b to \$85b
- Many mandatory and few discretionary programs are exempt (special rule for special/trust funds)
- ATB in FY 2013, different process for FY 2014+

Ms. Tomsic stated that Medicaid, transportation funding and other mandatory programs that benefit low income individuals were all exempt from sequester. Much federal funding was subject to a "special rule" stating that programs subject to sequester would get the money back later.

Co-Chair Austerman asked if the \$984 billion included cuts to the base or to future growth.

Ms. Tomsic responded future growth. She clarified that every year approximately \$109 billion would be cut for a period of ten years. She noted that the base assumed some growth over time. She pointed out the different process in 2013, where every program subject to sequester would receive an across-the-board cut. In future years, discretionary programs would be subject to a lower reduction in the discretionary spending limits, meaning that congress would determine which programs were reduced.

Ms. Tomsic referred to slide 12: "FAQs on the BCA Sequester."

1. What is the ATB percentage cut?
 - a. FFIS estimates -5.9 percent for nondefense discretionary (was -8.2 percent) and -5.7 percent for nondefense mandatory (was -7.6 percent)
 - b. Exact percentage won't be known until march 2013
2. How will individual programs be affected?
 - a. ATB cut applied to FY 2013 funding in place on 3/1/13 (CR?)
 - b. Cuts must be applied to each program, project, and activity
 - c. OMB has authority to apply special rules, exemptions
3. What is the timing of the cuts?
 - a. Agencies have some discretion
 - b. Reflected in grant awards issued after March 1, 2013

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Representative Holmes understood that the federal government would be six months into their fiscal year when they would be asked to make the cuts.

Ms. Tomsic responded that the federal fiscal year began in October, but circumstances for the sequester were different. She explained that agencies had some discretion regarding the timing of the cuts. States had already received grant awards for 2013. Most of the cuts would come in the second half of the fiscal year. Some agencies, such as education preferred that school districts were not worried about this school year. Much of the funding was advance funding, which would occur the July - September quarter. She expected the preferences to vary on a program by program basis. The continuing resolution was funded on an FY 12 level plus a slight adjustment for across-the-board increases in FY 13 included in CR, which would mean new annualized levels for those programs.

Representative Holmes opined that the process would prove interesting for this legislature as various departments unveiled their plans.

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Ms. Tomsic continued with slide 13: "While most state grant programs are subject to sequester..." She explained that a program subject to a sequester would absorb the costs. The Office of Management and Budget (OMB) would decide how to apply or interpret the special rules and exemptions.

Ms. Tomsic moved on to slide 14: "Most Alaska grant funding is exempt." She noted that the data base had 216 programs and 165 were covered by sequester (76 percent). Most grant funding for Alaska was exempt from sequester. Only 24 percent of federal funding in Alaska was subject to sequester.

Ms. Tomsic discussed slide 15: "Some program areas in Alaska are more affected than others." The chart observed the funding for Alaska by budget function to determine how much of the funding was subject to sequester. Programs such as agriculture, employment and training, community development, justice, energy, environment, natural resources, and general government had 100 percent of the funding subject to sequester. She mentioned that education showed 87 percent of funding covered by sequester, but she added that Pell grants were not tracked. She noted that only 6 percent of the health program was subject to sequester, although Medicaid, children's health insurance program and vaccines for children remained exempt from

sequester. The remainders of the public health programs were subject to sequester. Transportation was the lowest at 3 percent.

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Ms. Tomsic continued with slide 16: "Among the 10 largest grants in Alaska, 7 are totally exempt." Only a few programs were subject to sequester.

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Representative Edgmon asked if the database allowed for the understanding of federally recognized tribes.

Ms. Tomsic apologized that the federal fund tracking was not well documented for tribal entities.

Representative Edgmon wondered how Alaska would compare to other states with large Native American populations.

Ms. Tomsic appreciated the comment, as the need for the data was valid.

Ms. Tomsic continued with slide 17: "The largest nonexempt grants in Alaska mostly benefit local governments." She noted that most non-exempt grants benefited local governments. Examples were impact aid, consolidated health centers, Title one, special education, etc. She noted that mineral leasing, and the fish and wildlife fish and wildlife restoration programs were subject to the "special rule," meaning that the state should "get back" any funds that were sequestered in the fiscal year.

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Ms. Tomsic discussed slide 18: "Potential impact of amended sequester in Alaska." She explained that the chart separated covered programs from those that were exempt. She noted that Alaska received \$637 million for those programs that were subject to sequester. The estimation was that the difference would be \$18 million. For the exempt or mandatory programs, funding would increase by \$77 million, which was driven by Medicaid and food stamp programs as they were experiencing growth. Overall, a \$59 million increase was expected for 2013.

Ms. Tomsic recommended comparing the covered program for 2013 under CR because transportation programs recently underwent a reauthorization and the structure changed dramatically. Funding was apparent in 2013 that was not in 2012 and was subject to sequester. If congress tackled the comprehensive deficit reduction, the changes would lead to between \$18 million or \$37 million cut with sequester in 2013. She mentioned that Medicaid proposals were on the table, but no action had occurred. One proposal existed to reduce federal match to 45 percent, which would lead to a cut of \$66 million. She offered the information to provide perspective on Medicaid funding.

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Representative Holmes asked about the ratio of covered versus exempt nationwide.

Ms. Tomsic responded that 18 percent of the funding was subject to sequester. Alaska had access to the "special rule," which would allow a refund of some sequestered dollars.

Representative Holmes asked if sequestration would reduce the nationwide budget.

Ms. Tomsic responded that the effect of the sequester was estimated to reduce the budget by \$85 billion in 2013. She added that mandatory programs that were outside of the process were growing based on eligibility and caseloads.

Representative Munoz asked about mandatory health care insurance and its effect on the number of Medicaid recipients.

Ms. Tomsic responded that a state's caseload would be impacted if they chose to take advantage of the Medicaid eligibility expansion. She added that a person could exempt themselves from Medicaid. She stated that increases to providers would match Medicare rates, which would affect costs.

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Representative Gara asked about the federal match for Medicaid.

Ms. Tomsic responded that the trends were masked by the hold-harmless provision of the stimulus program. She stated that the average had increased over time.

Representative Gara asked if the match would remain at 50 percent unless the law changed.

Ms. Tomsic reminded the committee that the sequester would not affect Medicaid. She added that Congress attempted to alter the matching rate. Formula changes tended to be difficult to agree on.

Representative Wilson asked if the reference to per capita income was based on residency.

Ms. Tomsic explained that the information was based on census data. The population estimate used the census numbers as a starting point. The estimate was then adjusted for births, deaths, and migration. She offered to provide the committee with additional information once she obtained it.

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Ms. Tomsic discussed slide 19: "We're captive on the carousel."

- One "crisis" averted, more in store:
 - March 1 sequester
 - Debt ceiling has been reached and will need to be raised
 - FY 2013 appropriations
 - CR expires March 27
- Total nondefense discretionary spending is \$610 billion, the federal deficit is \$1.1 trillion

Ms. Tomsic discussed slide 20: "So what's the bottom line?"

- The yawning gap between federal revenues and spending persists
- Tax expenditures and Medicare/Medicaid are squeezing out other spending
- The state-federal partnership is now defined by Medicaid
- Non-Medicaid grants have been on the descent for years, and that's unlikely to change

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Representative Gara recalled a past presentation illustrating that applications for Medicaid had increased. The per capita cost of medical care was skyrocketing, leading to the increased Medicaid costs. He mentioned a healthcare commission that might provide valuable recommendations. He proposed the idea of seeking cost saving ideas and imagined that the healthcare commission would be helpful.

HB 65 was HEARD and HELD in committee for further consideration.

HB 66 was HEARD and HELD in committee for further consideration.

#

ADJOURNMENT

The meeting was adjourned at 3:29 p.m.